

u.r. OPEN MEETING ITEM 4



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MEMORANDUM
Arizona Corporation Commission

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TO: THE COMMISSION

2001 APR 18 P 2: 22

APR 18 2001

FROM: Utilities Division

DOCKETED BY

AZ CORP COMMISSION
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DATE: April 17, 2001

RE: ARIZONA ELECTRIC POWER COOPERATIVE, INC. AND TRICO ELECTRIC COOPERATIVE, INC. - JOINT APPLICATION FOR APPROVAL OF AN AMENDED AND RESTATED PURCHASE AND WELL SERVICE AGREEMENT WITH PHELPS DODGE SIERRITA, INC. (DOCKET NOS. E-01773A-01-0239 AND E-01461A-01-0239)

On March 20, 2001, Arizona Electric Power Cooperative, Inc. ("AEPCO") and Trico Electric Cooperative, Inc. ("Trico") filed a joint application for approval of an *Amended and Restated Purchase and Well Service Agreement* with Phelps Dodge Sierrita, Inc. ("PD Sierrita"). An abridged version of the agreement, with confidential portions redacted, was filed with Docket Control. A complete version of the agreement was filed confidentially with Staff. On April 4, 2001, Staff recommended that the Commission suspend the application for 60 days so that Staff could have sufficient time to evaluate the application.

The proposed agreement would replace two current agreements: (1) a Purchase Agreement through which Trico sells firm and interruptible power to Sierrita for its Twin Buttes copper mining operations and (2) a Contingent Well Service Agreement through which Trico serves part of Sierrita's water pumping load at the Sierrita Tailings Area. The original Purchase Agreement was approved by the Commission on June 13, 1994 (Decision No. 58662), amended on December 20, 1995 (Decision No. 59441), and amended on October 29, 1998 (Decision No. 61209). The Contingent Well Service Agreement was approved by the Commission on December 20, 1995 (Decision No. 59441) and amended on October 29, 1998 (Decision No. 61209).

On July 27, 2000 (Decision No. 62758), within the decision in which the Commission approved stranded costs for AEPCO, the Commission approved a settlement agreement between Sierrita, AEPCO, and Trico. Among other terms of the settlement agreement, the parties agreed to increase AEPCO's rates under the Purchase Agreement and the Contingent Well Service Agreement effective as of January 1, 2001. The Commission approved the resulting amendment to the agreements on January 11, 2001 (Decision No. 63306). The existing agreements are effective through December 31, 2001, but they can continue after 2001 unless terminated by any party with six months notice.

THE COMMISSION

April 17, 2001

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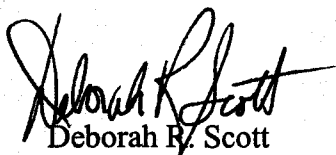
The proposed agreement would become effective upon approval by the Commission and the Rural Utilities Service. The date of initial service under the agreement would be May 1, 2001. The agreement would remain in effect through December 31, 2003, but would continue after that date unless terminated by any party with at least six months notice.

Staff recommends approval of the proposed agreement. Staff has determined that the revenue to be received from PD Sierrita under the agreement would cover AEPCO's short-run marginal cost (calculated using Staff's production cost model, UPLAN) plus the costs of future capacity needed to serve the customer.

Staff also recommends that a provision be added to the agreement to allow the customer to access the competitive market. The amendment should be filed with the Commission within 30 days of the Decision approving the agreement.

Because PD Sierrita does not contribute to either AEPCO's or Trico's purchased power and fuel adjusters, Staff further recommends that the costs and revenues of this agreement with PD Sierrita continue to be excluded from the purchased power and fuel adjusters of AEPCO and Trico, but that the costs and revenues continue to be reported as a memo item on the purchased power and fuel adjuster reports.

In addition, Staff recommends that the Commission specify in its Order that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with PD Sierrita.



Deborah R. Scott
Director
Utilities Division

DRS:BEK:lhv\JFW

ORIGINATOR: Barbara Keene

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL

Chairman

3 JIM IRVIN

Commissioner

4 MARC SPITZER

Commissioner

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6 IN THE MATTER OF ARIZONA ELECTRIC)
POWER COOPERATIVE, INC. AND TRICO)
7 ELECTRIC COOPERATIVE, INC. - JOINT)
APPLICATION FOR APPROVAL OF AN)
8 AMENDED AND RESTATED PURCHASE AND)
WELL SERVICE AGREEMENT WITH PHELPS)
9 DODGE SIERRITA, INC.)

DOCKET NOS. E-01773A-01-0239
E-01461A-01-0239

DECISION NO. _____

ORDER

10 Open Meeting
May 1 and 2, 2001
11 Phoenix, Arizona

12 BY THE COMMISSION:

13 FINDINGS OF FACT

14 1. Arizona Electric Power Cooperative, Inc. ("AEPCO") and Trico Electric Cooperative,
15 Inc. ("Trico") are certificated to provide electric service as public service corporations in the State of
16 Arizona.

17 2. On March 20, 2001, AEPCO and Trico filed a joint application for approval of an
18 *Amended and Restated Purchase and Well Service Agreement* with Phelps Dodge Sierrita, Inc. ("PD
19 Sierrita"). An abridged version of the agreement, with confidential portions redacted, was filed with
20 Docket Control. A complete version of the agreement was filed confidentially with Staff. On April 4,
21 2001, Staff recommended that the Commission suspend the application for 60 days so that Staff could
22 have sufficient time to evaluate the application.

23 3. The proposed agreement would replace two current agreements: (1) a Purchase
24 Agreement through which Trico sells firm and interruptible power to Sierrita for its Twin Buttes
25 copper mining operations, and (2) a Contingent Well Service Agreement through which Trico serves
26 part of Sierrita's water pumping load at the Sierrita Tailings Area. The original Purchase Agreement
27 was approved by the Commission on June 13, 1994 (Decision No. 58662), amended on December 20,
28 1995 (Decision No. 59441), and amended on October 29, 1998 (Decision No. 61209). The Contingent

1 Well Service Agreement was approved by the Commission on December 20, 1995 (Decision No.
2 59441) and amended on October 29, 1998 (Decision No. 61209).

3 4. On July 27, 2000 (Decision No. 62758), within the decision in which the Commission
4 approved stranded costs for AEPCO, the Commission approved a settlement agreement between
5 Sierrita, AEPCO, and Trico. Among other terms of the settlement agreement, the parties agreed to
6 increase AEPCO's rates under the Purchase Agreement and the Contingent Well Service Agreement
7 effective as of January 1, 2001. The Commission approved the resulting amendment to the agreements
8 on January 11, 2001 (Decision No. 63306). The existing agreements are effective through
9 December 31, 2001, but they can continue after 2001 unless terminated by any party with six months
10 notice.

11 5. The proposed agreement would become effective upon approval by the Commission and
12 the Rural Utilities Service. The date of initial service under the agreement would be May 1, 2001. The
13 agreement would remain in effect through December 31, 2003, but would continue after that date
14 unless terminated by any party with at least six months notice.

15 6. Staff has recommended approval of the proposed agreement. Staff has determined that
16 the revenue to be received from PD Sierrita under the agreement would cover AEPCO's short-run
17 marginal cost (calculated using Staff's production cost model, UPLAN) plus the costs of future
18 capacity needed to serve the customer.

19 7. Staff has also recommended that a provision be added to the agreement to allow the
20 customer to access the competitive market. The amendment should be filed with the Commission
21 within 30 days of the Decision approving the agreement.

22 8. Because PD Sierrita does not contribute to either AEPCO's or Trico's purchased power
23 and fuel adjusters, Staff has further recommended that the costs and revenues of this agreement with
24 PD Sierrita continue to be excluded from the purchased power and fuel adjusters of AEPCO and Trico,
25 but that the costs and revenues continue to be reported as a memo item on the purchased power and
26 fuel adjuster reports.

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1 9. In addition, Staff has recommended that the Commission specify in its Order that
2 approval of the agreement at this time does not guarantee any future ratemaking treatment of the
3 agreement with PD Sierrita.

4 CONCLUSIONS OF LAW

5 1. AEPCO and Trico are Arizona public service corporations within the meaning of Article
6 XV, Section 2, of the Arizona Constitution.

7 2. The Commission has jurisdiction over AEPCO and Trico and over the subject matter of
8 the application.

9 3. The Commission, having reviewed the application and Staff's Memorandum dated April
10 17, 2001, concludes that it is in the public interest to approve the application with an amendment.

11 ORDER

12 THEREFORE, IT IS ORDERED that the application be and hereby is approved.

13 IT IS FURTHER ORDERED that a provision shall be added to the agreement to allow the
14 customer to access the competitive market. The amendment shall be filed with the Commission within
15 30 days of this Decision.

16 IT IS FURTHER ORDERED that the costs and revenues of this agreement with PD Sierrita
17 continue to be excluded from the purchased power and fuel adjustors of AEPCO and Trico, but the
18 costs and revenues continue to be reported as a memo item on the purchased power and fuel adjustor
19 reports.

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1 IT IS FURTHER ORDERED that approval of the agreement at this time does not guarantee
2 any future ratemaking treatment of the agreement with PD Sierrita.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4
5 **BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

6
7 CHAIRMAN

COMMISSIONER

COMMISSIONER

8 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
9 Secretary of the Arizona Corporation Commission, have
10 hereunto, set my hand and caused the official seal of this
11 Commission to be affixed at the Capitol, in the City of
12 Phoenix, this _____ day of _____, 2001.

13 _____
14 BRIAN C. McNEIL
15 Executive Secretary

16 DISSENT: _____

17 DRS:BEK:lhvJFW
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SERVICE LIST FOR: Arizona Electric Power Cooperative, Inc., and Trico Electric Cooperative, Inc.

1 DOCKET NOS. E-01773A-01-0239 and E-01461A-01-0239

2 Mr. Michael M. Grant
3 Gallagher & Kennedy, P.A.
4 2575 East Camelback Road
5 Phoenix, Arizona 85016-9225

6 Mr. Christopher C. Kempley
7 Chief Counsel
8 Arizona Corporation Commission
9 1200 West Washington
10 Phoenix, Arizona 85007

11 Ms. Deborah Scott
12 Director, Utilities Division
13 Arizona Corporation Commission
14 1200 West Washington
15 Phoenix, Arizona 85007

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